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Israel's Middle Class Struggles for Better Living Standards

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Report Highlights:

During the past month, hundreds of thousands of Israelis, mainly middle class, ages 25 – 45, are protesting against the government, demanding improved standards and quality of life. A new study by the Knesset's (Israeli parliament) Research and Information Center confirms findings that food in Israel is far more expensive than in Europe. It was not like that in the past. The research found that over the past five and a half years Israeli food prices have risen more than in Europe and the US.

Israel's Middle Class Struggles for Better Living Standards

During the past month, hundreds of thousands of Israelis, mainly middle class, ages 25 – 45, have been protesting against the government, demanding improved standards and quality of life. It is common wisdom in Israel that the middle class carries most of the economic, social and security burdens, while other sectors, who gained political power during the last two decades, are exploiting benefits granted by the state at the expense of the middle class and others. The protest started two months ago with the “cottage cheese protest” in which the consumers boycotted cottage cheese after it was found that the price was raised significantly by the dairy companies and the retail chains with no justification. The second sector that followed the “cottage protest” was that of the housing renters, who claim that rentals and housing in Israel became unaffordable to most of the young, even those who earn higher than average salaries. The housing protesters established tent camps all over the country – the biggest in Tel Aviv with more than 1,000 tents. The protesters organized 3 big demonstrations in Tel Aviv and in smaller towns nearby. The number of demonstrators grew from week to week to over 300,000 in the last demonstration. Demonstrations are going to continue and spread to Tel Aviv. All protesting activities and demonstrations are organized by intense use of all kinds of digital social media. The protesters who started with a demand for reduced food and housing prices are demanding now a complete change in government's economic and social policy by returning to higher government responsibility in supplying additional social and welfare services. The protestor's leadership demands a total change of the government's priorities and a focus on the following demands:

- Housing – affordable housing for all sectors,
- Education – Free education starting at the age of 3 – 18 and a subsidy for education starting at the age of 3 months,
- Public Health – increased doctor salaries and increased “health basket” for the public.
- Food Prices – increased price control, dismantling and better control of monopolies and cartels, encourage competition by waiving trade barriers and expanding imports.
- Taxes – more justice in the tax collection system by decreasing the share of indirect taxes and increasing income tax on high income earners.
- Privatization – stop the privatization process of welfare, education and health services and restore the government's responsibility for these services.
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The first committee that has been established as response to the “Cottage Protest” was the “Kedmi Committee”, headed by the Director General of the Ministry of Industry, Trade and Labor, Mr. Sharon Kedmi. Kedmi's committee which discussed the issues of cost and consumption of dairy products has published its recommendations in which the focus is on the dairy market opening for competition, including import tariff reductions and import quota liberalization.

The move will provide a significant reduction in custom rates and a cancellation of rates for other products. Aside of custom reductions, an ease in import licensing process by the Ministry of Health and standardization has been suggested. Custom rates on other products (out of granted quotas) are as follows:

- Meat – 190%
- Butter – 140%

- Powdered milk – 162%.

It should be mentioned that the detailed recommendations, which so far referred only to dairy products had been submitted a month ago to the Prime Minister who is so far unable to pass the committee's recommendations as result of stiff objections from most of his ministers who consider these steps as disastrous to the Israeli farmers. The committee has also recommended that the dairy and the supermarket chains, which are responsible for the price increase will be required to report every quarter on the scope of revenues from the sale of 30 dairy products. If unaccounted profitability is found the product will be put under price controls.

The Prime Minister, under continuous pressure of the protests, established an advisory committee of 18 government and public representatives, in order to propose to the government how to meet the protesters demands "in the frame of the current budget". The committee is supposed to accomplish its work in 6 weeks. The Prime Minister promised to try and fully adopt the committee's proposals. The protesters who claim that the government committee, which includes government people who are responsible to the current situation, is obliged to work in the frame of the existing budget will only suggest minor improvements ("cosmetic"), establish an alternative committee of 70 people divided into 9 sub committees which are supposed to analyze economic and social areas and suggest a different, more just, system for additional sources and expenditures for the government activities.

Bank of Israel Report – Inflation and GDP Forecast

The Monetary Policy Report for the first half of 2011 was submitted to the government of Israel in the beginning of August 2011. The Report was prepared in the Senior Monetary Forum of the Bank of Israel, headed by the Governor of the Bank, the forum in which the Governor makes decisions on the interest rates.

According to the report, in the first six months of 2011, the Consumer Price Index (CPI) increased by 2.2 percent, and on a seasonally adjusted basis it increased slightly less, by 1.9 percent (which is an annualized rate of 3.9 percent). The main factors behind the higher index were higher food prices (4.4 percent), energy costs (6.6 percent), and housing (rentals, 3.5 percent). The rise in prices during the period reviewed was affected by domestic factors, primarily housing, as well as by external factors—global commodity and energy prices.

The Bank of Israel forecasts that inflation in the next twelve months will be 2.9 percent, slightly below the upper limit of the inflation target range. The inflation rate over the next twelve months' being at the upper limit of the target inflation range is explained by the continued rise in the housing component (rents) and stronger demand, as well as by the increases in recent months in the prices of commodities and energy. The economy is expected to grow at 4.8 percent in 2011 and at 3.9 percent in 2012. The forecast adds that the interest rate will rise gradually to about 3.9 percent over the next year, as part of the Bank of Israel's policies to return inflation to within the target range.

OECD Findings

According to the OECD, one in five Israeli's, Israel has the second highest income poverty rate in the OECD after Mexico, and is well above the OECD average of 11.1 percent. 39 percent of Israelis find it difficult or very difficult to live on their current income, well above the OECD average of 24 percent. (<http://www.oecd.org/dataoecd/38/50/47573464.pdf>)

Israeli Parliament Report on Food Prices

A new study by the Knesset's (Israeli parliament) Research and Information center confirms findings that food in Israel is far more expensive than in Europe. It was not like that in the past. The research found that over the past five and a half years Israeli food prices have risen by far more than in Europe and the US.

From 2005 to May 2011, food prices in Israel rose by 12.7 percent, while in the 17 Euro bloc countries prices rose by just 1.1 percent.

The rise in prices in Israel was three and a half times higher on average than the 3.6 percent average price rise in food recorded in the 27 member states of the European Union. Moreover, in a period when Israel saw a sharp rise in the consumer food price index, there were some western countries where the index fell. In Switzerland, for example, food prices fell by an average of 4.7 percent, and in Greece they fell by 3.5 percent, while in Ireland, Spain, and Norway prices were eroded.

Food prices to the consumer rose not only compared with other countries, but also compared with the indices of agricultural inputs and the food industry output index. While these two indices rose by a similar amount, the food prices index continued to rise sharply. A comparative segmentation of food prices in Israel compared to different countries in Europe points to a higher than average difference.

On the other hand, according to the survey, bread production costs went up by 48 percent in the past couple of years, while the prices of subsidized bread rose by only 40 percent, meaning the bakeries allegedly absorbed the difference but were compensated by the government. The price difference which helped supermarkets increase their margins is prominent in the ready food category. While industrial costs saw a 15 percent increase in the past few years, consumer prices went up by more than double to 35 percent.

According researchers, over the five and a half years covered by the study, the local price of natural yogurt increased 46 percent, the price of cottage cheese rose 41 percent, and the price of white cheese rose by 32 percent. Over this period sour cream and a carton of milk, whose price is under control, rose by 15.5 percent.

Some of the consumers in Israel have called for a boycott on companies that raise prices. Below is a letter that was uploaded to the facebook page by an Israeli who returned from the US, at the beginning of August 2011 (translated from Hebrew into English)

"In the social struggle for cost of living"

I visited the United States, and I went to the supermarket and saw Tnuva's cheese (Israel's largest dairy producer) on the shelf –and could not believe about the prices - "Edam" Cheese (Tnuva), a double packing of 400 grams 200x2 Produced by "Tnuva Tel Yosef", which is a dairy processing plant in northern Israel.

Price per 400 grams (2 packages) - 6.59 dollars, which is about 23 Israeli shekel, meaning, 11.5 per unit.

Yes – Israeli cheese made which is exported to the United States and transported to the western coast - Los Angeles sold there in NIS 11.50 per unit.

While, the same cheese product is Israel, the price in Israeli retails chain is - NIS 18 per unit. Same story is also re feta cheese - 1.94 lb package are approximately 950 grams to 2 units. Price in the U.S. \$9.39 – which is about NIS 33 or NIS16.5 per unit, while price in Israel is NIS 26.50 per unit!

Is there a logical explanation for this, expect that Tnuva has very big margins on the account of the Israeli consumer!





Israeli Ministry of Agriculture Report on Fresh Agricultural Produce Prices

From January 2006 till June 2011 (in real terms), prices of fresh agricultural produce increased by 34.4 percent, while for the same time period, the CPI in Israel increased by only 16.9 percent, meaning 104 percent increase compared to the CPI.

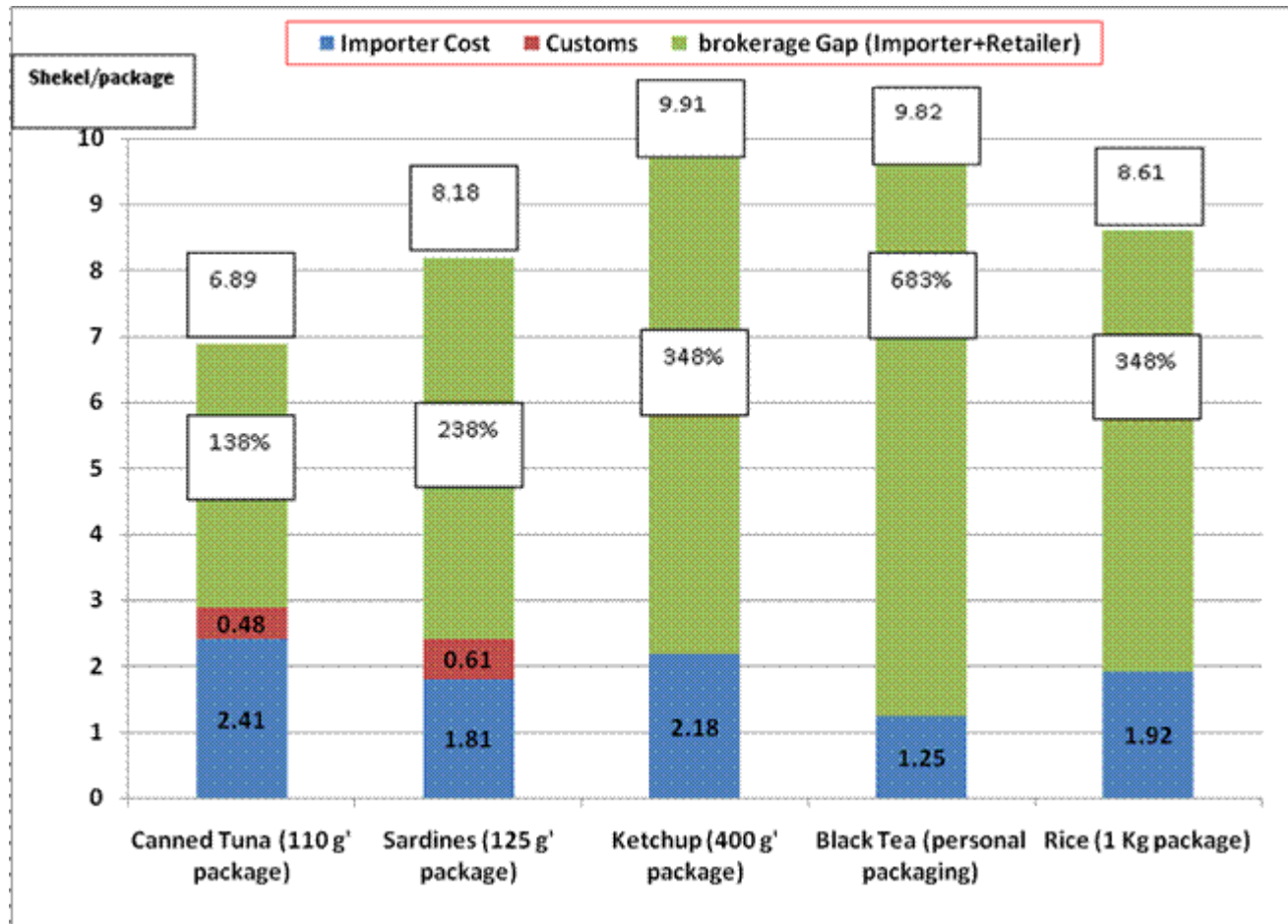
The gap between the wholesale food price level and price for the final consumer totaled nearly 56 percent in June 2011, compared to an average of 53.3 percent in 2010.

The gap between the wholesale price for fresh vegetables and the price that the final consumer has to pay totaled 102.4 percent in June 2011, while the gap for fresh fruits only totaled 36.3 percent. Hereunder, find some examples of the retail gap for some kinds of vegetables:

- Melon – 143.5 percent
- Carrot: 124.1 percent
- Tomato: 117.4 percent
- Watermelon: 115.4 percent
- Pepper: 113.7 percent

It should be indicated that since 2006 till now, the highest gap between retail price level and prices for the final consumer was recorded in June 2007, and it totaled nearly 76 percent (compared to 56 percent in June 2011).

The Gap between Imported Food Cost and Price for the Final Consumer at the retail Chains in Israel



Source: Israeli Ministry of Agriculture

** e.g. Canned Tuna: $6.89 / (0.48 + 2.41) = 138\%$

The table above shows clearly, that also imported products that are not produced locally, like tea and rice and therefore are exempt from tariff rates, and should be expected to be under competition from different sources, show high brokerage.